clarepine

1983 ANNUAL REPORT

PRESIDENT'S REPORT

Clarepine Developments Ltd. is an investment and holding company. Its principal investment at the present time is 55.3% of the outstanding common voting shares of Strathcona Resource Industries Ltd. Strathcona is an Edmonton based operating company with its shares listed on the Toronto Stock Exchange. Because Clarepine owns more than 50% of the shares of Strathcona, the revenues of the two companies are combined in a consolidated statement in order to better reflect Clarepine's operations and interests to its shareholders. All inter-company charges are eliminated for reporting purposes.

Gross consolidated revenue for 1983 was $12,502,000 compared to $10,260,000 for 1982. Cash flow from operations was $1,122,000 (30.3¢ per share) against $918,000 (24.8¢ per share) for 1982. Final net income for the year was $391,000 (10.6¢ per share), 1982 was $525,000 (14.2¢ per share). Since we are also including with this report a copy of the Strathcona Resource Industries Ltd. Annual Report, I will not deal in detail with the corporate divisions.

As I look back over the report written two years ago, at this time I cannot but reflect on the concerns of that time and the developments that have followed. Inflation and interest rates have moderated but are still of serious concern. Our worst fears with regard to the length and depth of the recession have been realized. At best, we have three years of no growth while many good businesses have been razed with owners and senior executives now forced to seek employment in a severely saturated job market.

The Canadian Oilfield Manufacturers and the Canadian Association of Gas Processors have recently completed surveys of their members in an effort to provide the Economic Development Department of the Province of Alberta with up to date statistics on employment rates in their industries. The employment levels have been reported at between 30 and 40 percent of 1981 levels with the balance of 1984 appearing flat. From our own perspective we expect these forecasts are about right and would not anticipate that our own steel fabrication division would exceed 50% of capacity for the balance of 1984.

However, one must be careful not to generalize and I believe that as the oil industry is generally restored to health, selective businesses will prosper. The gas industry will recover slowly but markets sufficient to meet ability to supply still seem to be sometime in the future. However, the demand for conventional oil is holding steady and the road program in the United States has improved the market for heavy oil. We therefore believe that the Alberta economy will be slowly restored to health but with the business emphasis shifted as discussed here and in our reports in Strathcona Resource Industries Ltd.

Respectfully submitted on behalf of the Management and the Board of Directors.

Sincerely,

R.A. McAlpine.

R.A. McAlpine
President

CONSOLIDATED BALANCE SHEET

November 30, 1983

Assets	1983	1982
Current assets:		
Cash	$ 696,000	$ —
Accounts receivable	2,201,000	1,269,000
Work in progress and inventories (note 2)	778,000	989,000
Agreements receivable, current portion	134,000	691,000
Prepaid expenses and deposits	47,000	42,000
	3,856,000	2,991,000
Agreements receivable	142,000	127,000
Property, plant and equipment (note 3)	11,027,000	10,301,000
Other assets	224,000	112,000
	$15,249,000	$13,531,000

Liabilities and Shareholders' Equity	1983	1982
Current liabilities:		
Bank advances	$ —	$ 179,000
Accounts payable and accrued liabilities	1,215,000	968,000
Deferred revenue	—	851,000
Income taxes payable	54,000	56,000
Current portion of long-term debt (note 4)	289,000	863,000
	1,558,000	2,917,000
Long-term debt (note 4)	7,478,000	4,873,000
Deferred income taxes	215,000	256,000
Minority interest	2,894,000	2,698,000
Share capital (note 5)	670,000	670,000
Retained earnings	2,434,000	2,117,000
	3,104,000	2,787,000
	$15,249,000	$13,531,000

On behalf of the Board:

R. A. McAlpine. Director

Director

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended November 30, 1983

	1983	1982
Revenue	$12,502,000	$10,260,000
Expenses:		
Operating	8,574,000	7,055,000
Depreciation and depletion	713,000	476,000
General and administrative	1,587,000	1,303,000
Interest — long-term debt	976,000	762,000
Interest — other	27,000	47,000
	11,877,000	9,643,000
	625,000	617,000
Gain on sale of land	—	108,000
Income before income taxes, minority interest and extraordinary items	625,000	725,000
Income taxes (note 6):		
Current	216,000	180,000
Deferred	(41,000)	40,000
	175,000	220,000
Income before minority interest and extraordinary items	450,000	505,000
Minority interest	(139,000)	(94,000)
Income before extraordinary items	311,000	411,000
Extraordinary items net of minority interest:		
Write-down of agreements receivable	(56,000)	—
Recovery of income taxes (note 6)	136,000	114,000
Net income	391,000	525,000
Retained earnings, beginning of year	2,117,000	1,718,000
	2,508,000	2,243,000
Dividends paid	74,000	75,000
Purchase for cancellation of share capital	—	51,000
Retained earnings, end of year	$ 2,434,000	$ 2,117,000
Earnings per share:		
Income before extraordinary items	8.4¢	11.0¢
Net income	10.6¢	14.1¢

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended November 30, 1983

	1983	1982
Funds provided:		
From operations	$ 1,122,000	$ 918,000
Recovery of income taxes	182,000	144,000
Reduction in agreements receivable	—	657,000
Proceeds from long-term debt	6,800,000	2,240,000
Proceeds from sale of property, plant and equipment	—	279,000
Increase in minority interest	56,000	—
Decrease in other assets	—	4,000
	8,160,000	4,242,000
Funds used:		
Purchases of property, plant and equipment	1,149,000	3,595,000
Acquisition of Dyer Equipment Inc. (note 7)	50,000	—
Reduction of long-term debt:		
Repayments	4,978,000	590,000
Increase (decrease) in current portion	(615,000)	372,000
Reduction in minority interest	—	32,000
Dividends paid	74,000	75,000
Write-down of agreement receivable	100,000	—
Increase in agreement receivable	15,000	—
Increase in other assets	185,000	—
Purchase for cancellation of share capital	—	64,000
	5,936,000	4,728,000
Increase (decrease) in working capital	2,224,000	(486,000)
Working capital, beginning of year	74,000	560,000
Working capital, end of year	$ 2,298,000	$ 74,000

For the year ended November 30, 1983

1. **Significant accounting policies:**

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary, Strathcona Resource Industries Ltd. (Strathcona — 55.3% owned).

All material inter-company transactions have been eliminated.

(b) Basis of recording revenue

Revenue is recorded principally as services are rendered or goods sold. Gross margins on manufacturing contracts are recorded on the basis of the estimated stage of completion on individual contracts.

(c) Work in progress and inventories

Work in progress and inventories are valued at the lower of cost and net realizable value.

(d) Property, plant and equipment

Property, plant and equipment are recorded at cost. Depletion on gas wells is calculated using the unit of production method based on estimated reserves as determined by the Company. Depreciation on assets other than gas wells is calculated using the straight-line or declining balance method to charge the cost, less estimated salvage value, to operations over their useful operating lives. The salvage values and estimated useful lives are reviewed on an annual basis. The useful lives are currently estimated to be as follows:

	Range	Average
Buildings	10 to 25 years	19 years
Automotive equipment	2 to 10 years	7 years
Manufacturing and processing equipment	5 to 20 years	8 years

2. **Work in progress and inventories:**

	1983	1982
Raw materials, part and supplies	$ 413,000	$ 432,000
Work in progress	317,000	462,000
Finished goods	48,000	95,000
	$ 778,000	$ 989,000

3. **Property, plant and equipment:**

	Cost		Net Book Value	
	1983	1982	1983	1982
Land	$ 3,956,000	$ 3,872,000	$ 3,956,000	$ 3,872,000
Buildings	4,231,000	4,014,000	3,503,000	3,465,000
Manufacturing and processing equipment	4,277,000	3,777,000	2,321,000	2,066,000
Automotive equipment	1,324,000	787,000	931,000	506,000
Oil and gas producing properties and equipment	593,000	593,000	245,000	306,000
Properties under exploration and development	71,000	86,000	71,000	86,000
	$14,452,000	$13,129,000	$11,027,000	$10,301,000

4. **Long-term debt:**

	1983	1982
Term bank loan, due in monthly instalments of principal and interest, at Canadian bank prime plus 1¼%, of $47,555, maturing March, 1998	$ 3,907,000	$ —
Term bank loan, due interest only until April, 1985, then in monthly instalments of principal and interest, at Canadian bank prime plus 1¼%, of $36,000, maturing March, 1998	2,800,000	—
Term bank loan, due in monthly principal instalments of $32,575 with interest at Canadian bank prime plus 1½%, maturing August, 1991	—	3,415,000
Chattel mortgage, due in five annual instalments of $42,000, with interest at 10% payable semi-annually, maturing January, 1988	210,000	—
Debenture, due in monthly instalments of principal and interest, at 13%, maturing February, 1984	—	1,321,000
Debenture, due in annual principal instalments of $150,000 in 1984 and 1985 and the balance on December 31, 1985, with interest at Canadian bank prime plus 2% payable monthly	850,000	1,000,000
	7,767,000	5,736,000
Principal due within one year	289,000	863,000
	$ 7,478,000	$ 4,873,000

Annual repayment of long-term debt due in each of the next five years is:

1984	$ 289,000
1985	$ 362,000
1986	$ 819,000
1987	$ 298,000
1988	$ 331,000

Term bank loans are secured by a specific first charge on certain land, buildings, and mobile equipment and a first floating charge on all other assets and undertakings of Strathcona. The chattel mortgage is secured by a specific first charge on certain equipment. The debenture is secured by a floating charge over all the property and assets of Clarepine Developments Ltd. and hypothecation of certain shares of Strathcona.

5. **Share Capital:**

Authorized — 10,000,000 common shares without par value

	1983	1982
Issued — 3,700,000 (1982 — 3,700,000)	$ 670,000	$ 670,000

6. **Income taxes:**

(a) Income tax expense is less than the amount calculated by applying the statutory tax rate to income before income taxes due to the availability of resource allowance and manufacturing and processing deduction.

(b) Strathcona has potential income tax reduction benefits which may be realized in future years. These benefits, which have not been recorded, consist of:

(i) Losses of $3,862,000 available for application against future years' taxable incomes. These losses expire as follows:

1984	$ 165,000
1985	2,362,000
1986	449,000
1987	703,000
1990	183,000
	$ 3,862,000

(ii) A capital loss of $612,000 available for application against future years' capital gains, with no expiry date.

(iii) Investment tax credits of $196,000 available for application against future years' income taxes payable. These investment tax credits expire as follows:

1985	$ 11,000
1986	42,000
1987	143,000
	$ 196,000

The amount of the realization of these benefits is recorded as an extraordinary item in the year of realization. If all potential benefits were to be realized, the amount of income tax reduction or recovery would be $1,688,000 to $2,114,000 dependent on the nature of the taxable income against which the non-capital losses are applied.

7. **Acquisition:**

On January 4, 1983, Strathcona acquired 75% of the common shares of Dyer Equipment Inc. The acquisition has been accounted for by the purchase method and the results of operations since January 4, 1983 have been included in these consolidated financial statements.

Net assets acquired at fair value:

Working capital	$ (50,000)
Equipment	210,000
Goodwill	48,000
Long-term debt, net of current portion of $42,000	(168,000)
	$ 40,000

Consideration given, at assigned value:	
100,000 common shares of Strathcona	$ 40,000

There is contingent consideration payable of an additional 500,000 common shares of Strathcona, depending upon the amount of cash flow generated by Dyer Equipment Inc. The contingent consideration will be recorded when and if it becomes payable.

Strathcona also acquired $250,000 of redeemable preferred shares of Dyer Equipment Inc. from treasury for cash, and has an option to acquire the remaining 25% of the common shares until December 31, 1985 for a consideration of 400,000 common shares of Strathcona.

8. **Remuneration of directors and officers:**

The aggregate remuneration paid by the Company to the directors and officers of the Company and its subsidiary was $507,000 ($458,000 in 1982).

9. **Industry segment information:**

	Revenue		Operating Income	
	1983	1982	1983	1982
Silica processing	$ 3,836,000	$ 3,981,000	$ 1,279,000	$ 1,166,000
Steel fabricating	6,074,000	6,121,000	901,000	805,000
Equipment manufacturing	2,237,000	—	11,000	—
Other	355,000	158,000	121,000	152,000
	$12,502,000	$10,260,000	2,312,000	2,123,000
General and corporate expenses			684,000	697,000
Interest			1,003,000	809,000
Income taxes			175,000	220,000
Gain on sale of land			—	(108,000)
			1,862,000	1,618,000
Income before minority interest & extraordinary items			$ 450,000	$ 505,000

	1983	1982
Depreciation, depletion, and amortization		
Silica processing	$ 300,000	$ 290,000
Steel fabricating	237,000	170,000
Equipment manufacturing	22,000	—
Corporate and other	154,000	16,000
	$ 713,000	$ 476,000
Capital expenditures		
Silica processing	$ 494,000	$ 237,000
Steel fabricating	139,000	2,340,000
Equipment manufacturing	(5,000)	—
Corporate and other	261,000	1,018,000
	$ 889,000	$ 3,595,000
Identifiable assets		
Silica processing	$ 3,232,000	$ 3,028,000
Steel fabricating	8,310,000	8,234,000
Equipment manufacturing	725,000	—
Corporate and other	2,982,000	2,269,000
	$15,249,000	$13,531,000

10. Unconsolidated balance sheet at November 30, 1983:

Assets	1983	1982
Current assets:		
Cash	$ 274,000	$ —
Accounts receivable	53,000	37,000
Notes receivable from subsidiary, current portion	—	325,000
Prepaid expenses and deposits	9,000	4,000
	336,000	366,000
Notes receivable from subsidiary	—	450,000
Investment in subsidiary	2,956,000	2,539,000
Property and equipment net of depreciation	1,014,000	974,000
Deferred finance costs	7,000	12,000
	$ 4,313,000	$ 4,341,000

Liabilities and Shareholders' Equity	1983	1982
Current liabilities:		
Bank loan	$ —	$ 150,000
Accounts payable and accrued liabilities	20,000	12,000
Income taxes payable	54,000	56,000
Current portion of long-term debt	150,000	150,000
	224,000	368,000
Long-term debt	700,000	850,000
Deferred income taxes	285,000	336,000
Shareholders' equity:		
Share capital	670,000	670,000
Retained earnings	2,434,000	2,117,000
	3,104,000	2,787,000
	$ 4,313,000	$ 4,341,000

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Clarepine Developments Ltd. as at November 30, 1983 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at November 30, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Edmonton, Canada
January 6, 1984

Chartered Accountants

FIVE YEAR REVIEW

	1983	1982	1981	1980	1979
FINANCIAL POSITION (000's)					
Current Assets	$ 3,856	$ 2,991	$ 3,572	$ 4,832	$ 707
Property, Plant & Equipment	11,027	10,301	7,342	7,476	2,032
Other Assets	366	239	903	167	54
	$ 15,249	$ 13,531	$ 11,817	$ 12,475	$ 2,793
Current Liabilities	$ 1,558	$ 2,917	$ 3,012	$ 5,198	$ 585
Long-Term Debt	7,478	4,873	3,595	3,200	619
Deferred Revenue	—	—	—	25	51
Deferred Taxes	215	256	216	295	169
Minority Interest	2,894	2,698	2,593	1,925	—
Shareholders Equity	3,104	2,787	2,401	1,832	1,369
	$ 15,249	$ 13,531	$ 11,817	$ 12,475	$ 2,793
OPERATING RESULTS (000's)					
Revenue	$ 12,502	$ 10,260	$ 9,508	$ 3,606	$ 2,914
Expenses					
Direct Costs and Manufacturing Overhead	8,574	7,055	6,662	1,836	1,686
General and Administrative	1,587	1,303	1,055	523	447
Depreciation and Depletion	713	476	422	223	183
Interest	1,003	809	660	195	87
	11,877	9,643	8,799	2,777	2,403
	625	617	709	829	511
Gain on Sale of Land	—	108	—	—	—
Income Taxes	(175)	(220)	(230)	(295)	(167)
Discontinued Operations	—	—	(110)	—	—
Minority Interest	(139)	(94)	(69)	—	—
Income before Extraordinary Items	311	411	300	536	344
Extraordinary Items	80	114	332	—	10
Net Income	$ 391	$ 525	$ 632	$ 536	$ 354
PER SHARE (cents)					
Income before Extraordinary Items	8.4	11.0	8.0	14.3	9.2
Net Income	10.6	14.1	16.8	14.3	9.5
Cash Flow	30.3	24.7	23.7	22.9	16.5
Shareholders Equity	83.9	75.3	63.6	48.8	36.5

CORPORATE INFORMATION

DIRECTORS

D.M. Chisholm
Chartered Accountant
Edmonton, Alberta

R.A. McAlpine
President and Chief Executive
Clarepine Developments Ltd. and
Strathcona Resource Industries Ltd.
Edmonton, Alberta

R.H. Nicholson
Businessman
Vancouver, B.C.

J.R. Sheard
Secretary-Treasurer,
Clarepine Developments Ltd. and
Strathcona Resource Industries Ltd.
Edmonton, Alberta

J.J. Stumborg
President, Gem Sod Farms Ltd.
Edmonton, Alberta

J. Weatherall
Vice-President and Director
Wood Gundy
Toronto, Ontario

OFFICERS AND SENIOR MANAGEMENT

C.A. Dyer
Vice-President and General Manager
Dyer Equipment Inc., a subsidiary of
Strathcona Resource Industries Ltd.

L.D. Johnston
Vice-President and General Manager
Strathcona Steel Mfg. Inc., a subsidiary of
Strathcona Resource Industries Ltd.

P.J. Levasseur
Vice-President Operations
Sil Silica, a division of
Strathcona Resource Industries Ltd.

C. Lomax
Vice-President Marketing
Dyer Equipment Inc., a subsidiary of
Strathcona Resource Industries Ltd.

R.A. McAlpine
President and Chief Executive

Z.A.K. Saif
Vice-President Engineering
Strathcona Steel Mfg. Inc., a subsidiary of
Strathcona Resource Industries Ltd.

J.R. Sheard
Senior Vice-President and
Secretary-Treasurer

EXECUTIVE OFFICE

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LEGAL COUNSEL

Milner & Steer
Edmonton, Alberta

TRANSFER AGENT

Canada Trust Company
Calgary, Alberta

ANNUAL MEETING

10:00 a.m. on Friday, April 27, 1984 at the
Executive Office of the Company

BANKER

Bank of Montreal
Edmonton, Alberta

AUDITORS

Peat, Marwick, Mitchell & Co.
Edmonton, Alberta

STOCK LISTED

Alberta Stock Exchange
(Stock Symbol — CRE)